

UNIVERSITY OF VIRGINIA

**INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2012**



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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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January 14, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon III
Chairman, Joint Legislative Audit
And Review Commission

Teresa A. Sullivan
President, University of Virginia

INDEPENDENT AUDITOR'S REPORT ON APPLICATION OF AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the President of the **University of Virginia**, solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.16, for the year ended June 30, 2012. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs and the Schedule's compliance with NCAA requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

The procedures that we performed and our findings are as follows:

Internal Controls

1. We reviewed documentation of accounting systems and operating procedures. We reviewed the relationship of internal control over intercollegiate athletics programs to internal control reviewed in connection with our audits of the University's financial statements. In addition, we identified and reviewed those controls unique to intercollegiate athletics programs, which were not reviewed in connection with our audit of the University's financial statements.

2. Intercollegiate Athletics Department management provided an organizational chart which we reviewed with appropriate personnel. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, and protection of records and equipment.
3. Intercollegiate Athletics Department management provided us with their procedures for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the intercollegiate athletics programs.

Affiliated and Outside Organizations

4. Intercollegiate Athletics Department management identified all intercollegiate athletics-related affiliated and outside organizations and provided us with copies of audited financial statements for each such organization for the reporting period.
5. Intercollegiate Athletics Department management prepared and provided to us a summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations included in the Schedule.
6. Intercollegiate Athletics Department management provided to us any additional reports regarding internal control matters identified during the audits of affiliated and outside organizations performed by independent public accountants. We were not made aware of any internal control findings.

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. Intercollegiate Athletics Department management provided to us the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) for the year ended June 30, 2012, as prepared by the University and shown in this report. We recalculated the addition of the amounts in the Schedule, traced the amounts on the Schedule to management's worksheets, and agreed the amounts in management's worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. We noted no material differences between the amounts in the Intercollegiate Athletics Department's accounts in the accounting records and the amounts on the worksheets. We discussed the nature of work sheet adjustments with management and are satisfied that the adjustments are appropriate.
8. We applied certain analytical review techniques to the revenue and expense amounts reported in the Schedule in order to determine the reasonableness of amounts reported therein. These techniques included trend analyses and review of actual amounts in comparison to budget estimates. We obtained and documented an understanding of significant variations.

Revenues

9. Intercollegiate Athletics Department management provided us with a reconciliation of tickets sold during the reporting period along with complimentary tickets and unsold tickets to the revenue recorded in the Schedule. We reviewed these reconciliations for selected months and found such reconciliations to be accurate and agreed them to the amounts recorded as ticket revenue for those months.

10. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be materially in agreement.
11. Intercollegiate Athletics Department management provided us with game guarantee agreements for away games during the reporting period. We determined game guarantees to be immaterial for detailed testing.
12. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Programs from any affiliated or outside organization, agency or group of individuals that constitutes ten percent or more of all contributions received during the reporting period. Except for contributions received from the Virginia Athletic Foundation, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs.
13. From the summary of revenues and expenses for or on behalf of intercollegiate athletics programs by affiliated and outside organizations, we selected individual contribution amounts and agreed each selection to supporting documentation and proper posting in the accounting records. We found all reviewed transactions to be in agreement.
14. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
15. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, advertisements, and sponsorships. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
16. We obtained an understanding of the Intercollegiate Athletics Department's methodology for recording revenues from sport camps. This amount was deemed immaterial for detailed testing.
17. We determined endowment and investment income was immaterial for detailed testing.

Expenses

18. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. We selected individual student-athletes across all sports and agreed amounts from the listing to their award letter. We also ensured that the total aid amount for each sport materially agreed to amounts reported as Financial Aid in the student accounting system.
19. We determined game guarantee payments were immaterial for detailed testing.

20. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals and compared amounts paid for one pay period or a bonus payment from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.
21. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. We determined the amount was immaterial for detailed testing.
22. We discussed the Intercollegiate Athletics Department's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies. We compared these policies to existing University and NCAA policies and noted substantial agreement of those policies.
23. We obtained an understanding of the University's methodology for allocating indirect facilities support and ensured that amounts reported on the Schedule agreed to amounts recorded in the accounting records.
24. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the intercollegiate athletics programs. These disbursements were for the various activities listed within the Schedule. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and properly recorded in the accounting records.

We were not engaged to, and did not; conduct an examination, the objective of which would be the expression of an opinion on the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of any financial statements of the Intercollegiate Athletics Department of the University of Virginia in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the University. This report relates only to the accounts and items specified above and does not extend to the financial statements of the University of Virginia or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the President and the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

SCHEDULE

UNIVERSITY OF VIRGINIA
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the Year Ended June 30, 2012

	Football	Men's Basketball	Women's Basketball	Other Sports	Non-Program Specific	Total
Operating revenues:						
Ticket sales	\$ 8,700,227	\$ 2,597,020	\$ 110,671	\$ 714,403	\$ 601,164	\$ 12,723,485
Student fees	-	-	-	-	13,131,129	13,131,129
Away game guarantees	200,000	-	-	-	-	200,000
Contributions	1,448,250	908,554	100	1,934,515	26,415,097	30,706,516
Conference and post season distributions	11,451,083	2,820,792	39,960	409,968	2,783,291	17,505,094
Program sales, concessions, novelty, and parking	523,959	160,202	45,659	16,841	273,948	1,020,609
Royalties, advertisements, and sponsorships	-	-	-	468,250	3,390,111	3,858,361
Sports camps	17,059	4,924	-	97,734	-	119,717
Endowment and investment income	-	-	8	23	574,442	574,473
Other	32,991	-	-	38,155	925,036	996,182
Total operating revenues	22,373,569	6,491,492	196,398	3,679,889	48,094,218	80,835,566
Operating expenses:						
Athletic student aid	3,176,382	494,937	620,155	8,368,454	182,743	12,842,671
Game guarantees	1,100,000	494,000	102,000	59,895	-	1,755,895
Coaching salaries and benefits	5,012,335	2,638,887	1,217,093	6,769,815	-	15,638,130
Staff and administrative salaries and benefits	1,339,147	511,612	259,103	304,384	10,863,819	13,278,065
Severance payments	939,105	-	881,366	144,221	-	1,964,692
Recruiting	327,421	228,600	188,273	507,204	-	1,251,498
Team travel	1,312,902	715,740	403,738	2,536,863	114,871	5,084,114
Equipment, uniforms, and supplies	501,966	13,661	6,447	504,601	60,397	1,087,072
Game expenses	2,273,463	666,983	487,525	1,179,912	82,761	4,690,644
Fund raising, marketing, and promotions	249,599	186	-	37,375	616,559	903,719
Direct facilities, maintenance, and rentals	36,394	7,559	1,289	538,350	9,478,545	10,062,137
Spirit groups	24,776	9,596	5,023	-	50,454	89,849
Medical expenses and medical insurance	151,444	28,227	12,387	226,839	1,023,212	1,442,109
Memberships and dues	3,449	3,126	1,683	22,543	51,993	82,794
Other	870,658	57,287	139,805	589,584	3,607,126	5,264,460
Total operating expenses	17,319,041	5,870,401	4,325,887	21,790,040	26,132,480	75,437,849
Excess/(deficiency) of revenues						
Over/(under) expenses	\$ 5,054,528	\$ 621,091	\$ (4,129,489)	\$ (18,110,151)	\$ 21,961,738	\$ 5,397,717

The accompanying Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs are an integral part of this Schedule.

UNIVERSITY OF VIRGINIA
NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2012

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs has been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletics programs of the University for the year ended June 30, 2012. The Schedule includes those intercollegiate athletics revenues and expenses made on behalf of the University's athletics programs by outside organizations not under the accounting control of the University. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in financial position, or cash flows for the year presented. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

2. AFFILIATED ORGANIZATIONS

The University received \$21,741,398 in operating contributions from the Virginia Athletics Foundation (VAF). This amount includes approximately \$12,996,154 for scholarships for student-athletes, and \$8,585,112 for operating expenses. It also includes approximately \$160,132 paid directly by VAF for the benefit of intercollegiate athletics programs, for fundraising and operating expenses, as well as for improvements and equipment. In addition, the University received \$6,955,891 from VAF, which the University is currently using to fund debt service for the John Paul Jones Arena. These amounts are included in the accompanying schedule in Contributions revenue.

In addition to operating contributions included in the accompanying schedule, the University received approximately \$6,261,245 from VAF used to fund capital expenses.

3. CAPITAL ASSETS

Capital assets are stated at cost at date of acquisition, or fair market value at date of donation in the case of gifts. The University capitalizes construction costs that have a value or cost in excess of \$250,000 at the date of acquisition. Renovations in excess of \$250,000 are capitalized, if they significantly extend the useful life of the existing asset. The University's Academic Division (which includes intercollegiate athletics programs) capitalizes moveable equipment at a value or cost of \$5,000 and an expected useful life of two or more years. Maintenance or renovation expenses of \$250,000 or more are capitalized only to the extent that such expenses prolong the life of the asset or otherwise enhance its capacity to render service.

Depreciation of buildings, improvements other than buildings, and infrastructure is provided on a straight-line basis over the estimated useful lives ranging from ten to 50 years. Depreciation of equipment and capitalized software is provided on a straight-line basis over estimated useful lives ranging from two to twenty years.

Capital assets related to construction are capitalized as expenses are incurred. Projects that have not been completed as of the end of the fiscal year are classified as construction in progress.

Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the capital asset. Capital assets, such as roads, parking lots, sidewalks, and other non-building structures and improvements are capitalized as infrastructure and depreciated accordingly.

A summary of the various capital asset categories relating to intercollegiate athletics programs for the year ending June 30, 2012 is presented below. The summary presents total amounts for capital assets that are used some or all of the time for intercollegiate athletic activities, including the John Paul Jones Arena. While all basketball games will be played in the Arena, it hosts many non-Athletic events.

	Balance at June 30, 2012
Non-depreciable capital assets:	
Construction in progress	<u>\$ 1,465,522</u>
Depreciable capital assets:	
Buildings	210,425,647
Infrastructure	11,654,309
Equipment	4,249,505
Improvements other than buildings	<u>106,063,729</u>
Total depreciable capital assets	<u>332,393,190</u>
Less accumulated depreciation:	
Buildings	52,072,937
Infrastructure	2,360,861
Equipment	2,335,521
Improvements other than buildings	<u>60,278,982</u>
Total accumulated depreciation	<u>117,048,301</u>
Depreciable capital assets, net	<u>215,344,889</u>
Total capital assets, net	<u>\$216,810,411</u>

4. LONG-TERM DEBT

Long-term debt relating to Athletics includes debt for Scott Stadium and the John Paul Jones Arena:

Description	Interest Rates	Maturity	Balance at June 30, 2012
Revenue Bonds:			
University of Virginia Series 2003B 9(d)	4.0% - 5.0%	2033	\$ 5,554,070
University of Virginia Series 2005 9(d)	4.0% - 5.0%	2037	71,044,121
University of Virginia Series 2008 9(d)	5.0%	2040	3,578,232
University of Virginia Series 2010 9(d)	3.2%	2041	195,203
University of Virginia Series 2011 9(d)	4.0% - 5.0%	2033	<u>22,165,326</u>
Total long-term debt			<u>\$102,536,952</u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 3,462,704	\$ 4,928,971
2014	3,613,158	4,741,895
2015	3,797,008	4,563,902
2016	3,979,717	4,377,009
2017	4,177,487	4,182,683
2018-2022	20,031,956	18,014,621
2023-2027	12,873,732	13,912,449
2028-2032	8,950,049	11,615,539
2033-2037	37,877,706	8,223,444
2038-2041	<u>3,773,435</u>	<u>397,802</u>
Total	<u>\$102,536,952</u>	<u>\$74,958,315</u>

5. ALLOCATION OF ATHLETIC OVERHEAD COSTS

The University recovers overhead from all auxiliary enterprises, including intercollegiate athletics programs, by applying an indirect cost rate to the auxiliary enterprise's expense base. This rate is calculated every two years. The rate in effect for the year ended June 30, 2012 was 4.7 percent and generated \$1,708,000 in overhead recoveries from intercollegiate athletics programs.

UNIVERSITY OF VIRGINIA

Charlottesville, Virginia

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